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UNCLAS HARARE 000703

SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ETRD ECON EINV PGOV ZI
SUBJECT: Goodbye, Exporters: Colgate-Palmolive's Case

Ref: a) Harare 141 b) Harare 256 c) Harare 456

¶1. (SBU) Summary: Colgate-Palmolive's relocation of productive facilities from Zimbabwe to South Africa bears witness to this Government's export-unfriendly policies. End Summary.

Zimbabwe's Loss - South Africa's Gain

¶2. (SBU) We have reported frequently (refs) on the GOZ's demolition of exporters through overtaxing, overvaluing the zimdollar and overcharging for services such as electricity. Colgate-Palmolive's case is illustrative. Over the past three years, the consumer products firm has gradually shifted its Zimbabwean manufacturing capacity to South Africa.

¶3. (SBU) The company's local managing director recently recounted how frustrating the process of becoming strictly an importer has been. For instance, Colgate-Palmolive used to export toothpaste produced in Zimbabwe to Malawi, taking advantage of a duty-free arrangement. Eventually, however, the multinational calculated that this privilege did not compensate for Zimbabwe's many obstacles:

- exchange 25 percent of forex revenue with the GOZ at a negligible rate
- contend with a perpetually overvalued zimdollar
- pay - on a regional standard - double for electricity
- get around logistics nightmares (erratic railway service, fuel/banknote shortages, etc)
- absorb a high political risk factor.

It became cheaper to export toothpaste from South Africa to Malawi, even with a strong rand, higher salaries and a 25 percent duty requirement.

Comment

¶4. (SBU) On a regional or global scale, GOZ policy has rendered domestic producers uncompetitive. Miners, for example, tell us they are digging deep for platinum in South Africa that they could extract near the surface in Zimbabwe - if only export conditions here made it worthwhile. By squandering resources to prop up the zimdollar, the GOZ is indirectly subsidizing foreign producers that sell in Zimbabwe while punishing its own manufacturers - i.e., what's left of them. Given that the zimdollar has already collapsed from Z$17:US$ since 1998, it's hard to explain GOZ vigilance to hold the exchange at about an overvalued Z$5,000:US$ rather than, say, Z$8,000-12,000:US$. But that's Zimbabwe.

Sullivan